

September 5, 2003



Logistics

Accountability and Control
of Materiel at the Ogden
Air Logistics Center
(D-2003-130)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

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Acronyms

AFMC	Air Force Materiel Command
ICBM	Inter-Continental Ballistic Missile
OO-ALC	Ogden Air Logistics Center
SSC	Shop Service Center
WSSC	Weapon System Support Center



INSPECTOR GENERAL
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September 5, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on Accountability and Control of Materiel at the Ogden Air Logistics Center (Report No. D-2003-130)

We are providing this report for your information and use. This report is the seventh in a series being issued by the Office of the Inspector General of the Department of Defense that discusses accountability and control of materiel at maintenance depots. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions on the audit should be directed to Mr. Dennis E. Payne at (703) 604-8907 (DSN 664-8907) or Mr. Keith A. Yancey at (703) 604-9657 (DSN 664-9657). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Kimberly A. Caputo", is positioned above the typed name.

Kimberly A. Caputo
Shelton R. Young
Director, Readiness and
Logistics Support Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2003-130

(Project No. D2003LH-0016)

September 5, 2003

Accountability and Control of Materiel at the Ogden Air Logistics Center

Executive Summary

Who Should Read This Report and Why? Civil service and uniformed officers who are involved in materiel management of items used for repair and overhaul processes should read this report. The report discusses compliance with policies and procedures used to account for and control materiel at Ogden Air Logistics Center.

Background. This is the seventh in a series of reports the Inspector General of the Department of Defense is issuing that discuss accountability and control of materiel at DoD maintenance depots. The FY 2003 budget for DoD depot maintenance was approximately \$16 billion. The Air Force portion of that amount was about \$6.5 billion. According to Ogden Air Logistics Center Comptroller's Office, the FY 2003 budget for the operation of the depot was about \$294.3 million. The D035K Wholesale and Retail and Shipping System showed that the value of the Ogden Air Logistics Center depot maintenance materiel inventory was about \$60.5 million.

Depot maintenance facilities need effective inventory control systems to ensure that an adequate supply of materiel is on-hand to maintain efficient levels of operation and to meet the demands of customers. An effective system is also important to disclose defective and obsolete goods; to prevent loss through damage, pilferage, or waste; and to ensure the accuracy of inventory records. Through inventory control, materiel not needed for current requirements at a depot can be identified and made available for redistribution to meet other known requirements.

Results. The Ogden Air Logistics Center did not effectively manage or control materiel stored in local maintenance shops. Inventory records had projected count errors of about 11 percent. The errors had overstatements valued at an estimated \$6.2 million and understatements valued at an estimated \$2.8 million. Also, about \$9.5 million of unaccountable materiel and about \$10.9 million of excess materiel was found on shop floors and in storage areas. As a result, the Ogden Air Logistics Center had inventories that were difficult to manage. Further, the unrecorded, excess materiel was not visible to satisfy needs elsewhere and, lacking visibility, allowed materiel to be subject to loss, obsolescence, and theft. Consequently, because of the unaccounted for inventory and excess materiel, the Ogden Air Logistics Center could have about \$20.4 million in potential monetary benefits. Complying with Air Force guidance on management of materiel and performing an annual physical inventory that includes materiel located on shop floors and other storage areas, as well as materiel listed in the materiel processing system, should improve management oversight of maintenance materiel.

Implementing the recommendations in this report would allow Ogden Air Logistics Center to improve the management of materiel and would correct material management control weaknesses identified by this audit. (See the Finding section for the detailed recommendations).

Management Comments and Audit Response. The Air Force concurred with all recommendations in this report and stated that guidance had been developed regarding the management of maintenance materiel that includes guidance for accountability and control of materiel, conducting annual inventories, and performing reconciliation. However, the Air Force had concerns as to the whether the \$20.4 million of potential monetary benefits identified by the audit would be fully realizable. The Air Force plans to determine by October 1, 2003, the actual monetary benefit achieved. At the request of the Air Force, we sent the Ogden Air Logistics Center the list of unaccountable and excess materiel that we identified during the audit. This action satisfies the intent of the recommendations.

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Background

This is the seventh in a series of reports resulting from our audit of accountability and control of materiel at DoD maintenance depots. The Joint Group on Depot Maintenance estimated DoD maintenance expenditures to be about \$16 billion for FY 2003. The Air Force portion of that amount was about \$6.5 billion for operation of three depot maintenance facilities. About 30-40 percent of the Air Force depot maintenance budget is for purchasing materiel used in repair and overhaul processes at depot maintenance facilities. According to Ogden Air Logistics Center (OO-ALC) Comptroller's Office, the FY 2003 budget for the operation of the depot was about \$294.3 million. The D035K Wholesale and Retail and Shipping System (D035K) showed that the value of the OO-ALC depot maintenance materiel inventory was about \$60.5 million.

Ogden Air Logistics Center. OO-ALC, located in Ogden, Utah, is one of three Air Force depot maintenance facilities. OO-ALC provides worldwide engineering and logistics management. It also overhauls and repairs landing gear, wheels, and brakes for all Air Force aircrafts and 70 percent of DoD aircrafts, rocket motors, air munitions, photonics equipment, training devices, avionics, software, and other aerospace-related components. The OO-ALC Maintenance Directorate has overall responsibility of depot-level maintenance for the maintenance divisions, which include the Aircraft Division, Commodities Division, Electronics Division, and Inter-Continental Ballistic Missile (ICBM) Division.

Shop Service Centers (SSCs) and Weapon System Support Centers (WSSCs) are forward supply organizations located in the maintenance division work areas. The SSCs/WSSCs are the standard materiel and production support function for depot maintenance. SSCs/WSSCs provide all supply-related services to the depot maintenance customer, which includes stocking, storing, and issuing aircraft and repair parts. The SSCs/WSSCs are responsible to the maintenance customer for all aspects of supply support and are responsible and accountable for managing stock. Further, the SSCs/WSSCs are responsible for scheduling and completing inventories of all assets on at least an annual basis.

Accounting For and Controlling Materiel. Inventory control is defined as the control of materiel by accounting and physical controls. Accounting control involves properly recording and reporting of inventories. Physical control is the incorporation of adequate safeguards for receiving, storing, handling, and issuing materiel. A physical inventory tests the accounting and physical controls by validating an item's storage location, on-hand quantity, and condition by counting and physically inspecting the items.

Inventory control is needed to ensure that an adequate supply of materiel is on-hand to maintain efficient levels of operation and to meet the demands of customers. Effective inventory control is also essential in disclosing defective and obsolete goods; preventing loss through damage, pilferage, or waste; ensuring inventory accuracy; and identifying materiel not needed for current requirements so that materiel can be made available for redistribution to meet other known requirements.

Management Oversight. The Air Force Materiel Command (AFMC) has primary responsibility for the three Air Logistics Centers and provides overall guidance for managing materiel. Air Force Manual 23-110, “U.S. Air Force Supply Manual,” January 1, 2002, and AFMC Instruction 21-130, “Equipment Maintenance Materiel Control,” August 2000, provide policy and procedural guidance for management and control of materiel at the Air Logistics Centers.

Storage of Materiel. The OO-ALC Maintenance Directorate is responsible for depot-level maintenance. OO-ALC storage areas for regular inventory, courtesy storage, and “awaiting parts¹” inventory are located in the Aircraft, Electronics, ICBM, and Commodities Divisions. All the materiel in the storage areas is in support of the repair and manufacturing of weapon systems at OO-ALC.

D035K Wholesale and Retail Receiving and Shipping System. The D035K is the primary data system used by the Air Force to provide materiel support for depot-level operations. It is used to process receipts from vendors and other suppliers and track materiel turned in from the maintenance divisions. The D035K also directs the movement of materiel into and out of storage and keeps track of where the materiel is located. Additionally, the system can be used to compute requirements and process retail customer requests and related transactions in support of maintenance. The D035K is the official accountability system for materiel stored at depot maintenance facilities.

Objectives

Our overall objective was to evaluate the effectiveness of policies and procedures used to account for and control materiel at OO-ALC. We also reviewed the adequacy of the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology and our review of the management control program. See Appendix B for prior coverage.

¹ Reparable items for which parts are not currently available.

Management of Materiel at Ogden Air Logistics Center

OO-ALC did not effectively manage or control materiel stored in local maintenance shops. The following conditions were found.

- Maintenance inventory records, when matched to our physical count, had a projected count error rate of 11 percent. The error rate overstatements are valued at an estimated \$6.2 million and error rate understatements are valued at an estimated \$2.8 million.
- Materiel found on shop floors and in storage areas of the Electronics Division was not recorded in accountable records. The materiel was valued at about \$9.5 million.²
- Excess materiel was maintained in courtesy storage areas of the maintenance divisions and also on shop floors of the Aircraft and Electronics divisions. The materiel had either not been used within the previous 6 months or had no demand history. The excess materiel was valued at about \$10.9 million.

Those conditions occurred because complete annual physical inventories and semi-annual reviews of courtesy storage materiel were not consistently performed. As a result, OO-ALC had inventories that were difficult to manage and included materiel that was either unaccounted for or excess to known requirements. Consequently, because of the unaccounted for inventory and excess materiel, OO-ALC could have about \$20.4 million in potential monetary benefits. In addition to the potential monetary benefits, there were substantial errors in the inventory records with values of overstatements and understatements that were significant. Further, the unrecorded, excess materiel was not visible to satisfy needs elsewhere and, lacking visibility, the materiel was vulnerable to loss, obsolescence, and theft.

Guidance

DoD Guidance. DoD Regulation 4140.1-R, “DoD Materiel Management Regulation,” May 1998, provides policies for DoD components regarding management of materiel. The regulation states that DoD components with physical custody of materiel are responsible to care for and safeguard the materiel and shall maintain quantitative balance records by individual storage location. Also, DoD components shall conduct annual physical inventories and shall take appropriate actions to ensure that the on-hand quantity and property records agree.

² A judgmental sample was used to select materiel located on the floor of maintenance shops and in storage areas for review. The results presented are limited to the sample reviewed and cannot be generalized to the universe.

Air Force Guidance. Air Force Manual 23-110 states that physical inventories of all properties held by Air Force organizations will be conducted annually. The purpose of physical inventories is to validate the accounts and correct errors. The process of taking a physical inventory involves physically counting the property, comparing those counts to record balances, and adjusting or correcting records so that record balances and quantity of property on-hand are identical.

AFMC Instruction 21-130 establishes policies and procedures for depot-level maintenance materiel control, support, and management of assets at the Air Logistics Centers. The instruction defines courtesy storage as a temporary holding area, provided as a courtesy for maintenance-owned materiel. It is not to be used as a collection and holding area for materiel that maintenance cannot use in a timely manner. As a minimum, an inventory of all courtesy storage locations shall take place every 6 months to identify items that have not been consumed within the previous 6 month period. Any materiel that has not been used during the prior 6 months and has no known requirements should be turned in to supply, whether or not credit can be obtained.

In January 2003, AFMC issued a memorandum to the Air Logistics Centers stating that excess materiel shall be turned in to supply if there is no current or future requirement for the material. Also, courtesy storage inventory results will be forwarded to AFMC and will include the total number of items in each courtesy storage location as well as the number of items that have been stored in excess of six months.

Audit Universe and Sample Selection

We used D035K data as of November 20, 2002, to identify an audit universe of 22,575 records for the 4 OO-ALC maintenance divisions. The audit universe was valued at \$60.5 million. We used a stratified random sample to select 345 records at those 4 OO-ALC maintenance divisions. The sample included 17 records from the Aircraft Division, 153 records from the Commodities Division, 150 records from the Electronics Division, and 25 records from the ICBM Division. We compared the on-hand balances shown on the D035K inventory records with the results of our physical count of materiel in the maintenance divisions.

Inventory Records

OO-ALC did not effectively manage or control materiel stored in local maintenance shops. Maintenance inventory records, when matched to a physical count, had a projected count error rate of 11 percent.

OO-ALC maintained inaccurate inventory records in the D035K. Using our stratified random sample approach, we performed a physical count of selected materiel stored in the maintenance divisions and compared it to the on-hand balances shown in D035K inventory records. From our sample, we projected at the 90 percent confidence level that 2,530 (11 percent) of the records in D035K

had on-hand quantity amounts that differed from the physical count we took. The lower and upper limits of our estimate is 1,083 (4.8. percent) and 3,978 (18 percent). The discrepancies involve overstatements of inventory, valued at an estimated \$6.2 million, and understatements of inventory, valued at an estimated \$2.8 million.

Accountable Records

Materiel found on shop floors and in storage areas of the Electronics Division was not recorded in accountable records. That materiel was valued at about \$9.5 million. We reviewed for unaccountable materiel in one of the four divisions, which was the Electronics Division. We selected the Electronics Division because of the sensitivity and the potential large dollar value of the materiel. We did not search for unaccountable materiel in the Aircraft, Commodities, or ICBM divisions. We selected and counted 372 items found on maintenance shop floors and in storage areas of the Electronics divisions³. Most of the materiel counted was labeled as “mockup.” Our physical inventory and discussions with shop personnel showed that the materiel was not accounted for in any way and, therefore, was not visible to satisfy needs elsewhere. The mockups and other materiel that we found were not accounted for in any of the records we reviewed. We were able to obtain prices for 337 of the 372 items, which totaled about \$9.5 million. Examples of unrecorded materiel found are shown in the following table.

Examples of Unrecorded Materiel (as of December 2002)			
<u>National Stock Number</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>
1270-01-446-7426	Power Supply	1	\$337,122
5985-01-146-4630	Low Noise Assembly	1	\$222,228
1270-01-282-7914	Radar Computer	1	\$162,639

Storage of Maintenance Materiel

Excess materiel was maintained in courtesy storage areas of the maintenance divisions and also on shop floors in the Aircraft and Electronics divisions. The materiel had either not been used within the previous 6 months or had no demand history. The excess materiel was valued at about \$10.9 million.

³ A judgmental sample was used to select materiel located on the floor of maintenance shops and in storage areas for review. The results presented are limited to the sample reviewed and cannot be generalized to the universe.

Material Processing System. Courtesy storage materiel that was listed in the materiel processing system--a local database system--was deemed to be excess. The materiel had either not been used within the previous 6 months or had little or no demand history. According to SSC chiefs, materiel listed in the materiel processing system was either previously collected from shop floors or transferred in from another depot. Also, the materiel processing system was only visible to shop personnel and was not listed in the DO35K database for visibility to others. The Aircraft, Commodities, and ICBM divisions stored materiel in the materiel processing system.

Aircraft Division. For the Aircraft Division, the materiel processing system showed 2,202 records in courtesy storage inventory. Of the 2,202 records, only 93 had activity within the last 6 months. The remaining 2,109 records either had no activity within the last 6 months, or the records showed no demand history, and therefore, the materiel was excess. Unit prices were only available for 1,712 of the 2,109 records, which were valued at about \$2.2 million.

Commodities Division. In the Commodities Division, the materiel processing system showed 1,231 records on-hand that were excess. The SSC chief stated that the materiel had been transferred in from an Air Force depot that was closed in 2001. The SSC chief also stated that the materiel had minimal demand activity while at OO-ALC. Unit prices were available for 1,115 of 1,231 records, which were valued at about \$8 million.

ICBM Division. The materiel processing system showed that the ICBM Division stored about 77 records of materiel in courtesy storage. The records did not show any demand history for these items and the SSC chief stated that these items had minimal usage. Therefore, these items were excess. Unit prices were only available for 8 of the 77 items, which were valued at \$29,061.

For the year ending December 2002, OO-ALC had transferred about \$2 million of the inventory records from courtesy storage to the DO35K. According to OO-ALC officials, as of April 23, 2003, most of the materiel listed in the materiel processing system had either been turned in to supply, placed on the DO35K database, or disposed of.

DO35K. The DO35K contained courtesy storage materiel that was determined to be excess. The DO35K had 1,401 records on-hand with an estimated value of \$2.78 million. We accessed the DO35K to find the date of last activity and found that 368 of the 1,401 records had no activity within the last 6 months or no demand history, and therefore, that materiel was excess. We were only able to obtain unit prices for 297 of the 368 records, which showed an extended value of about \$415,019.

Shop Floors. Excess materiel was found on shop floors of both the Aircraft and Electronics divisions. We selected and counted 45 items for review and found each of those items to be excess, which shop personnel confirmed⁴. Shop

⁴A judgmental sample was used to select materiel located on the floor of maintenance shops for review. The results presented are limited to the sample reviewed and cannot be generalized to the universe.

personnel indicated that some of the excess materiel had been transferred in from another depot that had closed, but the excess materiel had no usage or demand activity at OO-ALC. The 45 items had a value of about \$317,826.

Physical Inventories

Count errors occurred, materiel went unrecorded, and excess materiel accumulated because personnel in the maintenance divisions did not always perform complete annual physical inventories as required. Also, a reconciliation of inventory records was not always performed to ensure that the physical count and location assignment matched the records in DO35K. Personnel responsible for physical inventories may have performed a physical inventory of the materiel shown in the DO35K, but did not always retain supporting documentation to show the results of the physical count or any adjustments to inventory records. Also, some types of materiel, such as mockups, were not included in the physical count. During our visit, shop personnel throughout the maintenance divisions began conducting a physical inventory, identifying unrecorded items, and accounting for all materiel.

Semi-Annual Reviews

OO-ALC personnel did not perform semi-annual reviews of courtesy storage materiel as AFMC Instruction 21-130 requires. The instruction requires semi-annual review of materiel in courtesy storage. The review includes consumption history and determining whether a known immediate requirement exists. SSC chiefs in the Aircraft, the ICBM, and Commodities divisions did not perform semi-annual reviews of courtesy storage inventories to validate whether the materiel had consumption history over the last 6 months or whether the materiel had immediate requirements. OO-ALC personnel were aware of the requirement to perform the semi-annual reviews.

Potential Monetary Benefits

The audit identified excess and unrecorded materiel valued at about \$20.4 million. Therefore, OO-ALC could have about \$20.4 million of potential monetary benefits. The exact amount cannot be determined until OO-ALC completes its annual physical inventory count of all materiel in the maintenance divisions--including the materiel on maintenance shop floors and in storage areas--and reconciles the results with the DO35K.

Recommendations and Management Comments

We recommend that the Commander, Ogden Air Logistics Center immediately:

1. Comply with the guidance in Air Force Manual 23-110, "U.S. Air Force Supply Manual," and Air Force Materiel Command Instruction 21-130, "Equipment Maintenance Materiel Control," regarding the management of maintenance materiel stored at the Air Logistics Center.

Management Comments. The Air Force concurred and stated that the Ogden Air Logistics Center Director of Maintenance has developed instructions for the turning-in of materiel.

2. Perform an annual physical inventory of all materiel recorded in the D035K Wholesale and Retail and Shipping System that is the responsibility of the Maintenance Directorate, reconcile the results, and turn in excess materiel to supply.

Management Comments. The Air Force concurred and stated that it has developed instructions to ensure compliance and timely completion of all required inventories and will implement the instructions by October 1, 2003.

3. Perform a physical count of all materiel located on the maintenance shop floors and in storage areas to identify unaccountable and excess materiel, reconcile the physical count to the D035K Wholesale and Retail and Shipping System, and turn in excess materiel to supply.

Management Comments. The Air Force concurred and stated that the Ogden Air Logistics Center Director of Maintenance has developed guidance on the disposition of excess materiel and will continue to identify and turn in excess materiel. Unaccountable materiel will be placed on accountable records by December 31, 2003.

4. Complete the review of courtesy storage materiel listed in the materiel processing system and either turn in the excess to supply, move to D035K Wholesale and Retail and Shipping System, or dispose of the materiel.

Management Comments. The Air Force concurred and stated that it is in the process of completing the research and identification of excess materiel to determine proper disposition. The anticipated completion date is October 1, 2003.

Management Comments on the Potential Monetary Benefits. The Air Force agreed that excess materiel was not properly accounted for. However, the Air Force had concerns as to the whether the \$20.4 million of potential monetary benefits identified by the audit would be fully realizable. By October 1, 2003, the Air Force expects to determine the actual monetary benefit achieved. We have sent the Air Force the list of unaccountable and excess materiel that we identified during the audit. This action satisfies the intent of the recommendations.

Appendix A. Scope and Methodology

We performed this audit at the OO-ALC, located in Ogden, Utah. We contacted personnel at OO-ALC. We concentrated on accountability and control of materiel. D035K inventory records as of November 20, 2002, showed that OO-ALC had 22,575 records, valued at about \$60.5 million. We reviewed DoD and Air Force regulations regarding policies, responsibilities, and procedures for accounting for and controlling materiel at Air Force Air Logistics Centers. To determine whether materiel was accurately accounted for and controlled in inventory records, we physically inventoried materiel stored in the Aircraft, Electronics, ICBM, and Commodities divisions. We also determined whether annual inventories and semi-annual reviews were being performed and whether management reports were being prepared. We statistically selected for review 345 records from the universe of 22,575 records. Because of the potential high dollar value and the sensitivity of the items, we used judgmental samples to select materiel located in maintenance storerooms and on shop floors. We determined unit prices by using OO-ALC inventory records from the D035K, the Air Force Master Item Identification Database (DO43A), and the Federal Logistics Information Record. We performed this audit from November 2002 through June 2003 in accordance with generally accepted government audit standards.

Sample Design. We used a stratified random sample design based on the materiel extended value per storage record as of November 20, 2002. We statistically selected storage records within the strata as shown in the following table.

Population and Sampling			
<u>Stratum</u>	<u>Description</u>	<u>Number of Storage Records</u>	
		<u>Universe</u>	<u>Sample Size</u>
1	Extended Value > \$500,000 Or Unit Price >\$100,000	24	24
2	>\$0 - \$100	8,489	27
3	>\$100 - \$1,000	7,657	28
4	>\$1,000 - \$10,000	4,086	93
5	>10,000 - \$20,000	469	28
6	>\$20,000 - \$500,000 and Unit Price <\$100,000	410	115
7	No Location: Extended Value > \$500 Or Unit Price >\$100	<u>1,440</u>	<u>30</u>
Total		22,575	345

Sample Results. Using the stratified sample design, we calculated statistical projections of the count errors of materiel in storage locations and the projected values of the overstated and understated inventories. Based on the sample results, using a 90 percent confidence level, we projected that between 1,083 and 3,978 of the 22,575 records had materiel count errors at OO-ALC. The point estimate 2,530 was the mid point of the range of the values. We further projected that the overstated value of the materiel in error was between \$4.96 million and \$7.46 million. The point estimate \$6.21 million was the mid point of the range of values. The understated value of the materiel in error was between \$0.42 million and \$5.25 million. The point estimate of \$2.83 million was the mid point of the range of values.

Use of Computer-Processed Data. We relied on computer-processed data from D035K for determining the accuracy of inventory records. Our review of system controls and the results of data tests showed an error rate that cast doubt on the validity of the data. However, we reviewed the data in context with other available evidence and concluded that the opinions, conclusions, and recommendations in this report are valid.

Use of Technical Assistance. Research analysts from the Quantitative Methods Division, Office of the Inspector General of the Department of Defense provided assistance in designing the statistical sampling plan for selecting inventory records for review and projecting the results.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Inventory Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls at OO-ALC regarding accountability and excess materiel. We also reviewed the results of management’s self-evaluation of those controls.

Adequacy of Management Controls. We identified material management control weaknesses for OO-ALC as defined by DoD Instruction 5010.40. OO-ALC management controls for managing depot maintenance materiel were not adequate to ensure that materiel was accounted for and that excess materiel was controlled. Further, annual physical inventories and semi-annual reviews to determine the necessity of the materiel in regular inventory, courtesy storage, and “awaiting parts” inventory were not being performed as required. All

recommendations, if implemented, will improve management of materiel. A copy of the report will be provided to the senior official responsible for management controls in the Air Force.

Adequacy of Management's Self-Evaluation. OO-ALC officials did not identify management of maintenance materiel as an assessable unit, and therefore, did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued six reports that discuss management of repair parts for maintenance. The Air Force Audit Agency has also issued three reports that discuss accountability and control of materiel. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

IG DoD

IG DoD Report No. D-2003-064, “Accountability and Control of Materiel at the Warner Robins Air Logistics Center,” March 20, 2003

IG DoD Report No. D-2003-057, “Accountability and Control of Materiel at the Naval Air Depot, Jacksonville,” March 5, 2003

IG DoD Report No. D-2003-033, “Accountability and Control of Materiel at the Naval Air Depot, North Island,” December 6, 2002

IG DoD Report No. D-2002-091, “Accountability and Control of Materiel at the Corpus Christi Army Depot,” May 21, 2002

IG DoD Report No. D-2002-003, “Accountability and Control of Materiel at the Tobyhanna Army Depot,” October 4, 2001

IG DoD Report No. D-2001-186, “Accountability and Control of Materiel at the Tobyhanna Army Depot – Stockage of Communications-Electronics Materiel,” September 21, 2001

Air Force

Air Force Audit Agency, Audit Report No. F2003-0007-FCR000, “F-15 Programmed Depot Maintenance Materiel Support,” December 19, 2002

Air Force Audit Agency, Audit Report No. DR001034, “FX 2065 Special Inventory Account, Defense Logistics Agency, Robins Air Force Base, Georgia,” August 21, 2001

Air Force Audit Agency, Audit Report No. DR001033, “Aircraft Materiel Management, C-5 Production Area, Warner Robins Air Logistics Center,” August 17, 2001

Appendix C. Report Distribution

Office of the Secretary of Defense

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Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

04 AUG 2003

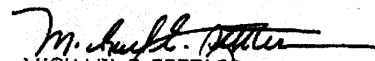
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE
OF THE INSPECTOR GENERAL, DEPT OF DEFENSE

FROM: HQ USAF/IL

SUBJECT: DoDIG Draft Report, "Accountability and Control of Material at the Ogden Air
Logistics Center. (Project Code D2003LH-0016)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. The Air Force concurs with all audit recommendations and OO-ALC/MA is taking corrective actions as required. Detailed responses are attached. Estimated completion date for all corrective action is 31 Dec 03.

To assess the accuracy of the potential monetary benefit claim of \$20.4M, OO-ALC/MA has requested a detailed list of unaccountable material and excess material that was identified by the auditor. Our concern is that actual monetary benefit for these items may be much lower, either because material not on record will be picked up both as on record and required, or because excess material will be sent to disposal with financial benefit equal to only 2-5% of the price used to calculate PMB.


MICHAEL E. ZETTLER
Lieutenant General, USAF
DCS, Installations & Logistics

Attachment:
Detailed AF Comments

cc:
HQ AFMC LGR
OO-ALC/MA

AF Comments on DoDIG Draft Report on Accountability and Control of Material at the Ogden Air Logistics Center (Project D2003LH-0016) as of 30 Jul 03

Recommendation 1. Comply with the guidance in Air Force Manual 23-110, "U.S. Air Force Supply Manual," and Air Force Material Command Instruction 21-130, maintenance material stored at the Air Logistics Center.

Response: Concur. MA Operating Instruction (OI) 23-34, "*Turn-In of Depot Maintenance Activity Group Owned Excess Material*" has been developed. This OI is in the coordination and signature cycle. Estimated completion date: 15 Aug 03

Recommendation 2. Perform an annual physical inventory of all material recorded in the D035K Wholesale and Retail and Shipping System that is the responsibility of the Maintenance Directorate, reconcile the results, and turn in excess material to supply.

Response: Concur. MAOI 23-04, "*Material Supportability Unit (MSU) and Maintenance Inventory Center (MIC) Inventory Processing*" has been developed and implemented. Guidelines are provided to ensure compliance and timely completion of all required inventories. The MSUs are in the process of completing wall-to-wall inventories. Estimated completion date: 1 Oct 03

Recommendation 3. Perform a physical count of all material located on the maintenance shop floors and in storage areas to identify unaccountable and excess material, reconcile the physical count to the D035K Wholesale and Retail and Shipping System, and turn in excess material to supply.

Response: Concur. MAOI 23-34 has been developed. It provides guidance for Product Divisions, local maintenance shops and the MSUs on disposition of Defense Management Activity Group owned excess material. Several maintenance shops have completed the review of excess material and turned the assets in to the MSUs for processing. The remaining shops are in the process of completing this review. Maintenance shops will continuously identify and turn in excess material to the MSUs. As excess material is identified, MSUs will follow all policy.

Material identified as mock ups in the MAL division was not on an accountable record. An inventory listing of Mock-Up assets for each MAL shop is being placed on a Custodian Authorization/Custody Receipt Listing (CA/CRL) file/folder in tab B (Shop Office Equipment). Estimated completion date: 31 Dec 03

Recommendation 4. Complete the review of courtesy storage material listed in the material processing system (MPS) -and either turn in the excess to supply, move to D035K Wholesale and Retail and Shipping System, or dispose of the material.

Response: Concur. Eleven of the 13 MSUs have completed research of excess material placed in the MPS and have established a D035K detail record or disposed of the assets. The remaining two MSUs are in the process of researching and identifying material to determine proper disposition. Estimated completion date: 1 Oct 03

Potential Monetary Benefits (PMB) \$20.4M

Response: The Air Force agrees that excess material located within maintenance was not properly accounted for. However, it may be found that some of the material was required and correction of both requirement and accountable records may have a net impact of zero. We agree that the records require correction; we do not assume that correction will result in monetary benefit. Excess material may also be sent to disposal, in which case only a fraction (2-5%) of the stocklisted price is realized in monetary benefit. OO-ALC/MA is waiting for a list from the auditors of the items that made up this PMB. After receipt of this list, OO-ALC/MA will evaluate the individual items to determine whether actual monetary benefit is achieved through redistribution of material. Estimated completion date: 1 Oct 03.

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Team Members

The Readiness and Logistics Support Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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